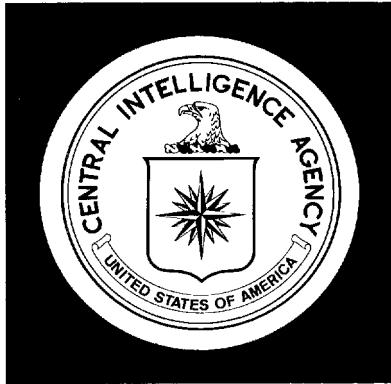


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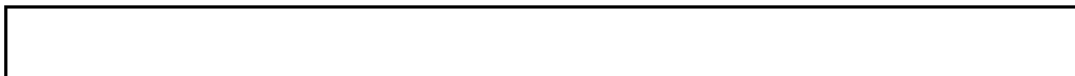
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SOUTH VIETNAM: President Thieu's political position has been strengthened by the desire of some important opposition elements for a united anti-Communist stand in the cease-fire period.

A key group of Catholics led by Senate Chairman Nguyen Van Huyen were among the most outspoken critics of the government last spring and summer. Now they reportedly believe that it is vital for all opposition groups to back the government in order to thwart a Communist take-over when the fighting stops. Huyen and his followers have put out feelers to the government concerning a possible reconciliation. They also appear to have abandoned an alliance with other opposition senators and have recently voted with the pro-government forces in support of Thieu's position on a cease-fire agreement.

The An Quang Buddhists also have been reassessing their position. Many of the leading members of the An Quang religious hierarchy believe that criticism of the government should be muted for the time being. They are said to be more concerned with the survival of an anti-Communist government than with Thieu's shortcomings, and some An Quang politicians have indicated that they would like to cooperate with the president. The Buddhists are not totally united in this view, however. Some Buddhists in the National Assembly continue to speak out against the government and would welcome Thieu's departure from the political scene.

Many of those who believe that cooperation with Thieu is necessary also believe that the government must broaden its base to survive a political contest with the Communists. This view was recently expressed by influential independent Senator Dang Van Sung, for example, who told the US Embassy that he fears the Thieu government will be unable to cope with "peacetime" problems because of the "military outlook" of Thieu's entourage. Sung and others are naturally hoping for a more important role in a broadened regime.

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There apparently have been some contacts between presidential emissaries and the opposition concerning possible participation in the government. There is no plausible evidence, however, that Thieu intends at this time to bring any new political elements into the regime. He has never trusted many of the country's politicians, and still believes they do not have enough influence on public opinion to warrant the concessions necessary to gain their full and enduring support.

Thieu's judgment on the present relative influence of the politicians may be correct. However, after a cease-fire, the Communist side will doubtless step up its efforts to influence major individual politicians and political groups. To hold his own position, Thieu may find it necessary to make concessions to civilian elements to assure their support.

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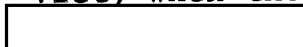
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USSR: Continuing the recent trend away from saber rattling, high-level defense officials took a somewhat more moderate line this year in their statements on Rocket Forces and Artillery Day.

Both the commander of the Strategic Rocket Forces (SRF) and his first deputy stressed the "constant combat readiness" of their forces--a familiar theme in statements by SRF leaders. Their remarks, however, were somewhat less bellicose than those of last year, when the SRF commanders placed greater emphasis on the "imperialist" threat and the destructive power of Soviet weapons, but still managed to tone down similar references made the year before.

This year, the SRF first deputy commander even had mild praise for SALT. He stated that the Soviet-American summit talks of May and the signing of the SALT agreements "create a favorable basis for further relaxation of tension in the world." He added, however, that better relations with the USSR can only be built on the basis of strategic equality, with no unilateral military advantages.

The milder tone was also reflected in the speech of Minister of Defense Grechko. On Rocket Forces Day in 1971, he spoke of administering a "resolute rebuff to any aggressor" with the SRF's "tremendous combat capabilities." This year, Grechko mentioned no enemies or threats and offered only brief platitudes. He previously stated his support for the SALT agreements on 29 September in his speech before the Presidium of the Supreme Soviet, when the agreements were formally ratified.

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INDIA: The government apparently will have to import larger quantities of grain than it had anticipated earlier.

On 1 December, US Embassy officials in New Delhi were told informally that India is planning to buy two to three million tons of grain, up from the one to two million tons anticipated as of last month. Government foodgrain stocks have dropped sharply to about four million tons on 1 November from nine million tons in August. Moreover, as much as two million tons of the remaining stocks may be unfit for human consumption. Due to world-wide shortages of rice and hard winter wheat, India may also have to take other grains, such as soft wheat, corn, and sorghum, and probably will have to come to the US for a major share of the purchases.

New Delhi hopes that shipments will start arriving in February. The heavy backlog of US shipments of wheat to the USSR, however, may delay deliveries.

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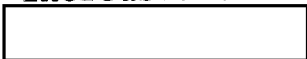
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EUROPEAN COMMUNITIES: The EC apparently is deferring, for the time being, the increase in tariff protection on aircraft and aircraft parts that had been proposed as a means of stimulating Europe's aerospace industry.

The increase would have been effected by lifting the long-standing suspension of the five-percent duty on such items. France, with subsequent support from Britain, proposed to discontinue the duty suspension last year. The EC Council, however, turned down that request, in part because of pressure from various European airlines which feared that higher aircraft costs would result. The EC Commission has now recommended that the Communities extend the suspension--which has been particularly beneficial to US exports--for at least another year.

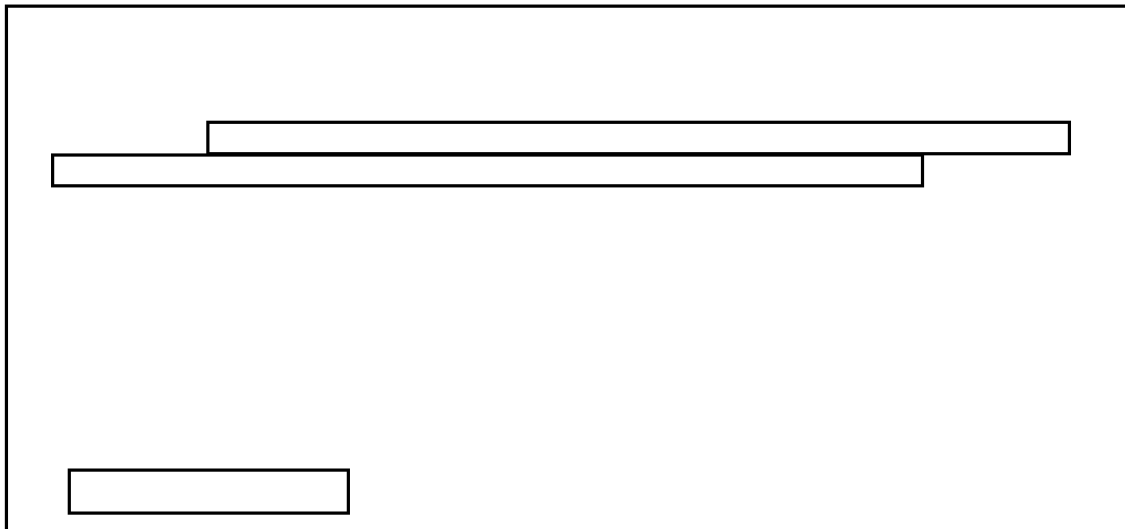
During the coming year, the EC Commission intends to review the lists of duty suspensions with an eye toward giving more selective tariff treatment to foreign producers of planes and parts. The EC intends, however, to bargain with the US in the 1973 trade negotiations for a mutual reduction in aircraft tariffs to zero.

The Commission, meanwhile, is continuing to study proposals, supported by Europe's aerospace corporations, to consolidate and modernize the aircraft industry. Aircraft experts are scheduled to meet in mid-January to examine commercial questions and the effects of duties imposed by the US. The UK, in particular, is urging the creation of a single European aircraft policy that could improve competition in markets now dominated by the US. The European industry now accounts for approximately ten percent of the Western market, but British aerospace spokesmen believe that this share could be increased through a more unified European approach.



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UGANDA: All of the approximately 400 Libyan troops sent to Uganda by President Qadhafi during the invasion by Tanzanian-based guerrillas last September have apparently returned home. A Libyan diplomat in Kampala assured a US Embassy official late last week that all the Libyans had departed by 30 November. The Ugandan Government has not acknowledged the departure, [redacted]

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[redacted] Amin may have ordered them all home because of increasing friction between Ugandan and Libyan troops and dissatisfaction on the part of some Ugandan military leaders with the Libyan presence. Amin, however, probably will continue to strengthen his ties to Libya and other Arab benefactors. [redacted]

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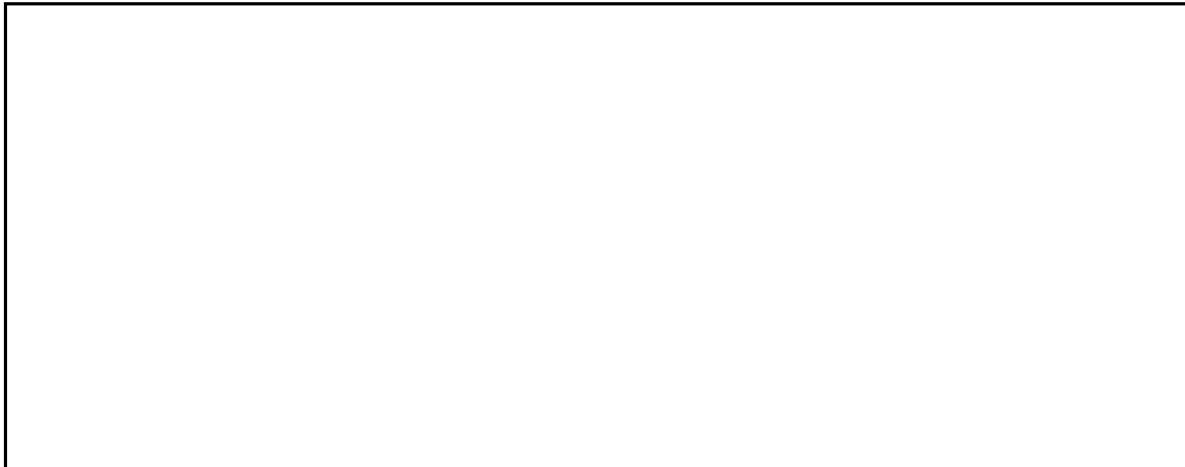
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JAPAN: Recovery is continuing to accelerate. Real gross national product rose at an annual rate of about 13 percent in the third quarter of 1972, and officials of the Japanese Economic Planning Agency now are projecting more than a ten-percent rise for the fiscal year ending 31 March. Heavy government spending is continuing to fuel the expansion and private investment is picking up. Expansion is generating inflationary pressures which are being reinforced by the increased liquidity stemming from balance-of-payments surpluses, and the Bank of Japan is considering tightening credit. Interest rates are fairly low, however, and any initial tightening of credit probably would not be very effective in retarding the expansion. [REDACTED]

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SWITZERLAND: Faced with predictions of a ten-percent rate of inflation next year, the cabinet has announced "urgent" measures to control the sharpest price increases in 20 years. The anti-inflationary package submitted to parliament apparently recommends selected price controls, unprecedented in postwar Swiss experience. In addition, it calls for new credit restrictions, implementation of an export deposit scheme, a limitation of tax write-offs, as well as additional measures to cool off the construction boom, one of the principal sources of inflation. With rising export orders stimulating industrial investment, signs of a renewed economic upswing make more urgent the need for this additional anti-inflationary action. The government's stabilization package, however, apparently does not cover wages, which are rising at an annual rate of nine percent. This omission could limit the effectiveness of the anti-inflationary package as well as its acceptability to parliament.

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